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To: Chairman, CEC  
From: Chairman, EDC  
Subject: Recommendations for Over-all Economic Defense Policy  
References: (a) Memorandum from Chairman, CEC, to Chairman, EDC, 1 January  
(b) CEC Document 501/6, Enclosure 4  
(c) EDC 152/3 plus paragraphs 7.9 and 10.9 of EDC 502/5

1. Attached as Tab A is EDC's proposed over-all economic defense policy as recorded by your memorandum (Reference (a)).
  2. EDC has used as a guide to acceptable form the paper prepared by the CEC staff in July 1955 (Reference (b)). Current policy is fixed by documents listed in Reference (c).
  3. The proposed policy statement sets forth the general policies and the major courses of action which should guide the operations of the economic defense program. The current U.S. and multilateral programs are continued. Maximum flexibility is provided to most foreseeable political and economic pressures. Explicit provision is made for treating individual Eastern Europe satellites less severely than the USSR. A coordination with Nato and other security alliances is proposed. Significant liberalization is recommended in multilateral controls toward Communist China.
  4. The principal change which is proposed concerns Communist China. The current U.S. change toward Communist China is continued.
  5. At present the differential multilateral controls toward Communist China call for embargo of (a) certain items under quantitative control to the European Soviet bloc (15 items), (b) certain items under surveillance to the European Soviet bloc (6 items)
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and (c) certain items not controlled to the European Soviet Bloc (207 items). It is proposed to continue the embargo to Communist China of (a) and (b) above but only such (c) items as we can obtain multilateral agreement to add to International Lists I, II or III for control to the European Soviet Bloc and embargo to Communist China.

b. Thus, a differential multilateral control is maintained toward Communist China and common multilateral control lists are established for application to the Sino-Soviet Bloc. This change is proposed because the multilateral embargo of differential items to Communist China has been substantially broken down by excessive use of the exceptions procedures. This breakdown places in jeopardy the continuation of an effective multilateral program. Constant attempts to correct this condition have failed. It is believed that this proposed course of action will serve both to re-establish an effective program and to support U.S. foreign policy and political considerations.

5. Specific matters such as refined criteria and control techniques or procedures are not covered in the proposed document since it is over-all policy. Such matters will be more appropriately considered in the context of U.S. positions for multilateral negotiations.

6. The current recommendations have been made without the benefit of any response to the bilateral negotiations conducted by the Department of State under Circular Airgram 5218. Should the positions of other governments be found to be incompatible with the recommendations now made with respect to policy, it will be necessary for ERG to consider new proposals for aligned policy.

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1. It has been agreed to by the principals concerned that:

(1) That

a. The bracketed material will stand (to be read up to the bracket and  
then across alone)

b. The Department of State will furnish the following:

1. A copy of the